

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----004923 191341Z /43

R 191246Z JUN 77
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC 8283
INFO AMEMBASSY JIDDA
AMEMBASSY TEHRAN
AMCONSUL DHAHRAN

C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 3335

EXDIS

E.O. 11652: GDS
TAGS: ENRG, KU, EFIN
SUBJECT: KUWAIT/AMINOIL TAX NEGOTIATIONS

REF: (A) KUWAIT 2248, (B) KUWAIT 2682, (C) 76 KUWAIT 2810,
(D) 76 KUWAIT 2355.

1. BEGIN SUMMARY. RESUMPTION OF AMINOIL TAX
NEGOTIATIONS WITH GOK MAY LEAD TO KUWAITI TAKEOVER
OF AMINOIL OPERATION IN KUWAIT. IN LIGHT OF
UNSATISFACTORY GOK RESPONSE TO AMINOIL PROPOSAL,
LATTER HAS SUGGESTED THAT GOK MAY WISH TO TAKE
OVER AMINOIL OPERATION IN KUWAIT. QUESTION OF
VALUATION OF LOCAL AMINOIL PHYSICAL ASSETS, FOR
WHICH AMINOIL WOULD NOT BE WILLING TO ACCEPT BOOK
VALUE PAYMENT, MAY BECOME SOURCE OF IRRITATION TO
US-KUWAITI RELATIONS. END SUMMARY.

2. AMINOIL TAX NEGOTIATIONS WITH GOK MAY SOON
REACH CRUCIAL POINT. MINISTER OF OIL INFORMED
AMINOIL GENERAL MANAGER ISON THAT SATISFACTORY
AGREEMENT HAD TO BE REACHED BY JUNE 21 OR AMINOIL
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OPERATION WOULD BE CLOSED DOWN. ISON
REPORTED THIS TO HIS NEW YORK HEADQUARTERS AND,
AFTER CONSULTATION OF AMINOIL PRESIDENT
SUNDERLAND WITH PARENT CORPORATION REYNOLDS
INDUSTRIES BOARD OF DIRECTORS, ISON WAS INSTRUCTED
TO INFORM OIL MINISTER THAT CURRENT AMINOIL
POSITION FOR SETTLEMENT (REF A) REMAINED UNCHANGED

AND GOK OFFER (REF B) WAS INADEQUATE. IF AMINOIL OFFER WAS STILL UNACCEPTABLE, THEN AMINOIL SUGGESTED THAT GOK MAY WISH TO TAKE OVER AMINOIL OPERATION IN KUWAIT AND COMPENSATE IT FOR ITS PHYSICAL ASSETS. AMINOIL WOULD BE WILLING TO NEGOTIATE MANAGEMENT SERVICE CONTRACT AND CONTINUE FURTHER OPERATION IN KUWAIT ON THAT BASIS, IF GOK DESIRED.

3. ISON INFORMED AMBASSADOR THAT THIS PROPOSAL SHOCKED KUWAIT AUTHORITIES AND THAT MINISTER OF OIL REQUESTED RETURN OF SUNDERLAND TO KUWAIT FOR FURTHER DISCUSSIONS. NO MENTION OF JUNE 21 DEADLINE WAS MADE IN THIS REGARD. SUNDERLAND IS DUE TO ARRIVE IN KUWAIT AROUND JUNE 25.

4. ISON EXPLAINED THAT, IN THE CONTEXT OF OVERALL REYNOLDS ACTIVITIES, AMINOIL IS A RELATIVELY SMALL OPERATION. MOREOVER, AMINOIL IS IN STRONG POSITION IN THAT IT HAS IN ITS POSSESSION SOME \$70 MILLION WHICH GOK IS SEEKING IN RETROACTIVE PAYMENTS FOR YEARS OF 1975 AND 1976 AS RESULT OF DESIRED REVISION OF CURRENT TAX ARRANGEMENTS. NEGOTIATION REVOLVES AROUND HOW MUCH OF THIS AMOUNT SHOULD BE RETURNED TO GOK IN FORM OF INCREASED TAXES. AMOUNT OWED TO GOK IN TAXES FOR CURRENT YEAR UNDER PRESENT CONTRACT ALSO EXCEEDS VALUE OF AMINOIL PHYSICAL ASSETS IN KUWAIT.

5. IN THIS CONNECTION, ISON STATED BELIEF THAT
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AMINOIL WOULD NOT SETTLE FOR BOOK VALUATION OF PHYSICAL ASSETS, AS DID GULF AND BP IN CASE OF TAKEOVER OF KUWAIT OIL COMPANY. THUS, WITH ITS ABOVE-MENTIONED FINANCIAL HOLDINGS, AMINOIL REMAINS IN GOOD BARGAINING POSITION IF GOK DECIDED TO TAKE IT OVER WITH OFFER OF BOOK VALUE FOR ASSETS AND REFUSED TO SUBMIT MATTER TO ARBITRATION. THESE FACTORS, PLUS FACT THAT, IF OPERATION CLOSED DOWN BY ARBITRARY GOK ORDER, 1,000 FAMILIES WOULD BE TURNED OUT OF WORK, MAY CAUSE GOK TO MOVE CAUTIOUSLY ON THIS MATTER. HOWEVER, ISON'S OVERALL OUTLOOK IS PESSIMISTIC, GIVEN GENERAL GREEDINESS OF KUWAITIS AND THEIR CURRENT ARROGANT ATTITUDE, REINFORCED BY THEIR SUCCESSFUL NEGOTIATIONS WITH GULF AND BP. ON THE OTHER HAND, COMPLICATIONS INVOLVED IN JOINT OPERATION OF THIS NEUTRAL ZONE CONCESSION WITH GETTY, TOGETHER WITH SAUDI ARABIA, MAY DETERMINATE ACTION BY GOK.

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C O N F I D E N T I A L SECTION 2 OF 2 KUWAIT 3335

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6. COMMENT: DETERIORATION OF THESE NEGOTIATIONS AND POSSIBLE GOK TAKEOVER COULD BE SOURCE OF IRRITATION, AND POSSIBLY EVEN SOME FRICTION, IN US-KUWAITI RELATIONS. GOK WILL HAVE NO REAL BASIS FOR CLAIM TO RETROACTIVE PAYMENTS FROM AMINOIL'S 1975-76 PROFITS, BUT QUESTION OF MANNER OF VALUATION OF ASSETS MAY CAUSE CONSIDERABLE HEARTBURN. IN THIS CONNECTION, EMBASSY OFFICIALLY INFORMED GOK OF US POSITION ON SUCH COMPENSATION MATTERS WHEN WE PROVIDED FOREIGN MINISTRY WITH AIDE MEMOIRE DATED JUNE 9, 1976 CONTAINING STATEMENT OF THIS POSITION (REF C). SIMILAR PRESENTATION WAS MADE IN MINISTRY OF OIL ON MAY 12, 1976 TO UNDERSECRETARY ADASANI, WHO IS SHAIRMAN OF PRESENT NEGOTIATING COMMITTEE. (REF D). AT THAT TIME, EMOFF MADE SPECIFIC STATEMENT THAT USG POLICY SHOULD BE KNOWN TO GOK SHOULD IT DECIDE TO TAKE OVER AMINOIL'S ASSETS.

7. INFORMATION CONTAINED ABOVE AND FACT THAT IT WAS PROVIDED BY GENERAL MANAGER ISON SHOULD BE GIVEN CAREFUL PROTECTION.
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